

Message Text

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ACTION XMB-04

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FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 OPIC-03 SP-02

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4839

C O N F I D E N T I A L MEXICO 9705

EO 11652: GDS

TAGS: ENRG MX

SUBJ: LAGUNA VERDE PROJECT

REF: A. STATE 248903 B. MEXICO 9637 C. MEXICO 7625 D. MEXICO 7798

1. REFTELS (A) AND (B) REFER TO RECENT EXIMBANK CREDITS TO COMISION FEDERAL DE ELECTRICIDAD. AS DEPARTMENT AND OTHER WASHINGTON AGENCIES ARE AWARE (REFTELS (C) AND (D)), U.S. SUPPLIERS, GENERAL ELECTRIC AND BURNS AND ROE, ARE EXPERIENCING MAJOR DIFFICULTIES WITH COMISION FEDERAL DE ELECTRICIDAD, AND, IN PARTICULAR, WITH DIRECTOR ARSENIO FARELL CUBILLAS IN PERFORMANCE OF OPERATIONS AT LAGUNA VERDE. GENERAL ELECTRIC PORTION OF LAGUNA VERDE PROJECT IS PRESENTLY AROUND \$60 MILLION AND BURNS AND ROE'S MAY EVENTUALLY MOUNT TO \$25 MILLION. CONSTRUCTION, FOR WHICH A CONTRACTOR APPARENTLY NOT YET SELECTED, COULD BE ANOTHER \$80 MILLION. BY THE TIME THE TOTAL PROJECT IS FINISHED, GENERAL ELECTRIC ESTIMATES IT COULD AMOUNT TO \$350-500 MILLION.

2. THE SITUATION DETERIORATED FURTHER SINCE EVENTS REPORTED REFTEL (D) (SEE MEMCON OCT 16 POUCHED ARA/MEX). FARELL HAS CONTINUED REFUSE TALK TO ANYONE IN GENERAL
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ELECTRIC BENEATH THE RANK OF CHAIRMAN OF THE BOARD.

GENERAL ELECTRIC COMPANY IN U.S. IS REPORTEDLY CONSIDERING WHETHER OR NOT TO SEND CHAIRMAN TO MEXICO. GOM HAD EARLIER ATTEMPTED TO FREEZE ALL DIVISIONS OF GENERAL ELECTRIC OUT OF THE MEXICAN MARKET AND HAD CANCELLED ALL OUTSTANDING ORDERS. SOME OF THESE HAVE SINCE BEEN REINSTATED ALTHOUGH THERE IS SOME DOUBT ABOUT PAYMENT.

3. ACCORDING TO MR. WILLIAM DONOVAN, MANAGER, INTERNATIONAL MARKETING, GENERAL ELECTRIC, MEXICO, AT THE PRESENT TIME COMISION FEDERAL DE ELECTRICIDAD OWES GENERAL ELECTRIC ABOUT \$5 MILLION AND THE AMOUNT INCREASES BY ABOUT \$1.3 MILLION MONTHLY. DONOVAN STATES, HOWEVER, THAT GOM WAS INVOICED ONLY IN AUGUST AND BY LOCAL STANDARDS PAYMENT IS ONLY NOW DUE. THE COMISION IS \$6 MILLION OR MORE IN THE HOLE TO BURNS AND ROE AND THIS AMOUNT GOES UP BY 1.7 MILLION MONTHLY. GENERAL ELECTRIC IS CONTINUING WORK AT NORMAL PACE ON THEIR PART OF THE PROJECT BUT BURNS AND ROE IS SLOWING DOWN.

4. ACCORDING TO MR. DONOVAN, GENERAL ELELCTRIC STILL DOES NOT WISH DIRECT INTERVENTION OF EMBASSY OR USG. GNERAL THINKING ON THIS SUBJECT IS THAT THEY MUST EITHER ATTEMPT TO COOPERATE WITH FARELL OR GO ALL OUT TO GET AROUND HIM. HALFWAY MEASURES IN THEIR VIEW WOULD ONLY MAKE THEIR SITUATION WORSE.

5. IN VIEW OF NEW EXIMBANK CREDITS TO COMISION (STATE 248903) AND OF THE LARGE EXIMBANK INVOLVEMENT IN THE LAGUNA VERDE PROJECT, DEPT. AND BANK MAY WISH KEEP MATTER UNDER REVIEW. BRANDIN

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